

Effectiveness of Daily Collector Systems in Financing Development of Small scale Rural Agribusiness in Delta State, Nigeria

ABSTRACT

The effectiveness of indigenous daily collector system in terms of security and growth of savings of smallholder agribusiness entrepreneurs has attracted the brilliant minds of Economist. This study investigates the effectiveness of Indigenous Daily Deposit collector system in savings security and mobilization. Structured questionnaire was used to collect primary data from 76 randomly selected respondents (agribusiness entrepreneurs). Descriptive statistics were used to analyze data. The result shows that one daily collector could service a mean of 25 daily depositors. Daily depositor could save a mean of N9,100 – N13,000 a month. Indigenous daily deposits system encourages capital accumulation in small bits but continuously. Daily depositors expressed preference and confidence in the indigenous daily deposit system principally due to elimination of distance factor and stringent protocols involved in conventional banking. Traditional daily deposit collector system was rated effective (57.7%) in terms of security of savings, mobilization of savings and access to deposits. The main constraints are low disposable income and irregular deposits. It was concluded that indigenous daily deposit collector system could effectively complement conventional banking system in Agribusiness financing..

KEYWORDS: effectiveness; indigenous; daily savings; investment; smallscale agribusiness.

INTRODUCTION

The historical emphasis on credit in the micro finance movement implicitly assumes that the poor cannot save for investments, and must therefore borrow at relatively high interest rates for business development. The above assumption was confirmed by Guth, (2008), with a renewed focus on encouraging the promotion of savings in rural settings. Adams (1978) decries the lack of focus on expanding rural savings capacity and argues that only a few nations stress mobilization of voluntary personal savings, arguing further that policy makers have too hastily assumed that rural households are too poor to save, that there is no excess cash flow from income and that those that do acquire additional income spend it on consumption. Yet evidence on rural saving behaviour from various nations has indicated impressive propensities to save among rural people. Rural households have a substantial capacity for personal saving. Their capacity to save is however adversely influenced by rural financial markets.

The analysis of household saving behaviour is not new. For instance, Von Pischke (1978) argues that rural households can save, but that they have specific needs due to low account balances, seasonal income, remote location, non-cash assets, high transaction operations. The development policy prescription in encouraging savings lies in the design of financial strategies to serve these specific needs. Poor households have to make choices between consumption, investment and savings. Having the right

financial services conveniently available might help them make the choice they prefer over a long period (Dean and Jonathan, 2009).

No study is recorded to have been carried out on Daily deposit systems (DDS) in developing countries such as Nigeria. This study therefore adopts a microeconomic approach in investigating the effectiveness of daily financial deposit for the development of small scale agribusiness enterprises in Delta State.

The survival of any agribusiness enterprise in Nigeria depends on how the owner(s) plans, analyses, operates and manages sources of financing. Agribusiness farm firms, include; fast foods enterprises, leather enterprises, bakeries, fisheries, piggeries, restaurants, poultrys and the related firms. They require massive attention and support given fact that they are major sources of employment just like the other non- agribusiness enterprises. They have a higher capacity for generating employment in Nigeria than some large scale enterprises CBN (1990). Indigenous saving systems are important sources of domestic capital formation via the mobilization and productive channeling of private savings. Small scale agribusiness play significant roles in the local and national development and growth of various economies, they oftenn referred to as “the engine of growth” and catalysts for socio economic transformation of any country. Strengthening agribusiness capital base through daily saving system is vital to development (Oriwumere *et al*, 2000)..

Rutherford (2000), puts forward a simple solution model to the dual problems of volatility of income and inability to borrow among resource poor households. Rutherford (2000) recommends daily deposit mechanisms for the rural poor to make small deposits that would cumulate to large withdrawals. The idea is that poor people can save and that they want to save in order to meet life cycle needs, cope with emergencies, acquire assets and expand businesses. Most of these needs require lump-sums, whereas, income of the poor often comes in small installments (small scale entrepreneurial income). Putting these ideas together, it becomes clear that the poor have uneven (irregular) cash flow, thus the need to save and they have small income, thus small capacity or ability to save.

What the small-scale entrepreneurs require is a safe, convenient place to keep their small income and a simple financial structure with which to discipline the accumulation of lots of small sums and their transformation into a large sum. A variety of home grown (indigenous) mechanisms including Rotating Savings and Credit Associations (ROSCAs) and Deposit collectors systems who charge the poor to collect their savings. The effectiveness of Daily Deposit System in terms convenience, security, simplicity, liquidity and incentive deserves critical investigation.

Small-scale agribusiness entrepreneurs are often regarded as the financially underserved sector of the economy. Consequently, small scale enterprises remain small in scale of operation; output is small, income is small and unable to satisfy demand (Achoja, 2011). Expansion of the small and medium scale enterprises would require financial injection through internal and external financing.

External financing through credit scheme is often difficult to access by small scale entrepreneurs due to lack of collateral. The common alternative is internal financing through saving mobilization. Savings through conventional banking is fraught with some limitations such as distance and stringent conditions. Informal rural financial system such as Osusu, cooperative societies, rotatory savings and credit associations and daily deposit system. The various informal financial system have their peculiarities and feature. Despite the relevance of daily deposit system in the rural financial economy, there is little or no study that describes its procedure, effectiveness and constraints, particularly when compared with conventional banking. Sanusi (1999) lamented that the internal financial system which controls about 82% of money outside the conventional banking system has made monetary policy ineffective, at best.

A comprehensive investigation of daily deposit system as a saving strategy will provide information on the saving behaviour of small scale agribusiness operators and how it translates to saving mobilization. This study was designed to fill this information gap on the effectiveness of daily deposit as indigenous saving method.

The broad objective of the study was to investigate the security of daily deposit system in saving mobilization among small scale agribusiness entrepreneurs in the study area.

The specific objectives of the study were to:

- (i.) describe the structure of indigenous daily deposit system in the study area.
- (ii.) determine the amount saved per month through indigenous daily deposit system.
- (iii.) assess the security of indigenous daily savings deposit services.
- (iv.) identify the constraints to indigenous daily deposit system.

The study was guided with the following null hypothesis.

Ho₁: Daily deposit system is not more effective than conventional banking in capital accumulation among small scale agribusiness entrepreneurs.

THEORETICAL FRAMEWORK

Part of the wealth saved can be utilized for further expansion of production. Saving prevents wastage or unnecessary usage on any form of capital, (Oxford Advanced learners Dictionary, 2007). If all people can save, the aggregate savings will increase, and aggregate investment will increase.

Different theories of savings have been reviewed by Achoja (2013); mathematical theory of saving, contemporary theory of saving, life cycle theory of saving, buffer stock theory of saving and classical theory of saving were clearly analyzed as exemplified by Carroll, (1992). The life cycle theory of saving stipulates that working class level of saving increases with age, attains a maximum point at retirement and begins to dwindle. To that extent, savings depends on age of the saver. This is probably due to the fact that consumption patterns varies with age of the saver (Achoja, 2013).

Indigenous daily saving systems are hinged on the Buffer stock saving theory which stipulates that households build up liquid savings in order to cope with income variability or to withstand income shocks. The buffer stock theory was derived from inter temporal utility maximization. The part of the income saved will flow back to the economy through investment for the production of consumable goods and services. The conclusion is that savings mobilized outside the conventional banking system will flow into the economy through investment.

Capital is demanded by the investor because of its productivity. The demand for capital is inversely related to the rate of interest. The supply of capital depends upon saving, rather upon the will to save and the power to save of the community. Some people save irrespective of the rate of interest. They would continue to save even if the rate of interest were zero. There are others who save because the current rate of interest is just enough to induce them to save.

To that extent, saving involves a sacrifice, abstinence or waiver of present consumption in order to earn interest. The supply of loanable funds comes from savings, dis-saving and bank credit. Personal savings are the main source of savings which depend upon the income level and the willingness of people to save.

The effectiveness of savings programs can be difficult to measure both because, savings is hard to capture in survey data and because it is hard to isolate savings from other financial services: few institutions offer only savings. Three factors particularly complicate measurement, size, timing and diffusion. Unlike credit inflows, which can be sizable relative to household income savings flows can be quite small and balances accumulate slowly. Also, the timing of the change in behaviour and outcome is less clear. For households, savings develop slowly through a small reduction in consumption over time, with a large inflow later. At some point the household will have built up enough savings to protect

126 themselves from shocks (like sickness or unemployment) to pay school fees, or to start a business.
127 Researchers need to measure savings balances at multiple points over several years.

128 The last issue diffusion, is perhaps the most important. Indigenous households save in all
129 different ways. In addition to formal savings institutions, they may save cash at home, with deposit
130 collectors, within a savings club (such as a Rosca) or by lending to family members. They may also save
131 in non-cash assets such as jewelry or livestock. An evaluation that failed to capture these different savings
132 systems could understate savings rates, potentially leading to incorrect conclusions about the impact of
133 the program.

134 **RESEARCH METHODOLOGY**

135 **Description of the study area, Sampling Procedure and Data collection Techniques**

136 Delta state, Nigeria was the study area. The occupation of the people in the rural area includes smallscale
137 agribusiness in livestock, fishing, crops subsector. There exist both formal and informal financial
138 institutions in the area. Most of the formal financial institutions (commercial banks) are located far away
139 from smallscale agribusiness operators.

140 Random sampling procedures was applied to select the sample for the study. The selected
141 communities were, Ogbeogonogo market quarters, Nnebisi road quarters, Umuaji quarters, and camp 74
142 quarters. A total of nineteen (19) respondents were selected in each selected community/quarters. This
143 gave a total number of 76 respondents that were sampled and studied. Data for the study were obtained
144 from primary sources. The primary data were obtained, using the structured questionnaire that were
145 administered to the respondents.

146 **Data Analysis**

147 Primary data collected, were analyzed with the use of descriptive and inferential statistical tools.
148 These include mean, percentage, frequency distribution and tables. Data collected on perception of
149 respondents on effectiveness of daily deposit collector system were measured on Likert scale. Average
150 score of 2.50 was set as threshold. Beyond the threshold, responses were considered significant.

151 **. RESULTS AND DISCUSSION**

152 **Structure of Daily Deposit System in Delta state**

153 The daily deposit system is composed of the supply side and the demand side. The isusu daily collectors
154 (savings service provider) occupy the supply side while the small scale business entrepreneurs occupy the

demand side of the savings service system. The daily collectors collect deposits from daily deposit contributors every day and return the accumulated savings at the end of the month. They do not charge interest on the deposits. They however withhold one deposit per month as an agreed fee. (i.e. $\frac{1}{3} \times 100/1 = 3.3\%$ commission). This result is similar to the earlier report of Dean and Jonathan (2009) who observed that the popularity of daily deposit collectors offers clear indications of the demand for savings services. They however offered insight into some of the constraints on the daily savings deposit services.

Table1: Mean Amount Saved by Small scale Agribusiness Entrepreneurs per Month in Traditional Daily Deposit System

Amount saved per month	Frequency (n=76)		Percentage (%)	
	Traditional	conventional	Indigenous	conventional
N5,000	12	60	15.7	78.9
N5,100 – N1,000	10	5	13.15	6.5
N9,100 – N13,000	50	5	65.7	6.5
Above N13,000	4	6	5.2	7.8
	76	76	100	100

(source: Field Data 2013).

Table 1 shows the mean amount saved by respondents in tradition daily deposit system and conventional banks in the study area. The result shows that majority (78.9%) saved N5,000 and below in the conentional banks while majority (65.7%) saved N11,050 on the average with traditional daily deposit system.

This results imply that the traditional daily deposit system encouraged more saving on the average than the conventional banks in the study area. This result could be due to the fact that the traditional daily deposit collector goes to the door post of the small scale agribusiness entrepreneurs to collect their daily savings unlike the conventional bank. The average saver stays some kilometers away from the conventional banks. To that extent, distance and cost of transportation to the nearest bank is a source of discouragement to small savers. The traditional daily deposit system could serve the small scale agribusiness enterpreneurs better than the conventional banks in this respect.

Perception of Respondents with respect to the safety of traditional daily Deposit System.

Table 2 : Perception of savers about the effectiveness of traditional daily deposit system

Items	SDA	DA	UD	A	SA	Total
i.IsTraditional daily	10 (1.78)	7 (1.40)	3 (0.70)	16(1.71)	40 (3.50)	76

deposit system safe?						
ii. Do you prefer traditional daily deposit system to conventional banks because proximity?	20 (2.00)	3 (0.70)	3 (0.70)	20(2.00)	30 (2.75)	76
iii. Are you confident in depositing your savings with traditional daily collector?	12 (1.81)	8 (1.67)	4 (0.71)	21(2.01)	31(2.79)	76

(source: Field Data 2013)

Note: The values in parenthesis are the corresponding average scores for responses and any value equal and greater than 2.50 is considered significant.

Where:

SDA = Strongly disagree

DA = Disagree

A = Agree

SA = Strongly Agree

UD = Undecided

Table 2 presents the distribution of respondents perceptions on the effectiveness of traditional daily deposit collector system in the study area. The result indicates that majority, **40% (3.50)** strongly agreed that the traditional daily deposit collector system is effective in temrs of security of their deposits. Majority of them 65.8% of respondents in the positive affirmative that the traditional daily deposit collector service is preferable to the conventional banks, while majority, 68.4% expressed confidence in the saving services render by traditional daily deposit collectors in the study area.

Constraints to Indigenous Savings Daily Deposit Services

Table 3: Constraints to Indigenous Daily Savings Deposit Services

S/No	Constraints	Frequency (n-76)	Percentage (n= 76)
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1	Low disposable income of savers	40	52.0
2	High price paid for collector services	7	9.2
3	High risk of loss of savings	15	19.7
4	Saving services provided is faulty	7	9.2
5	Irregular deposit	7	9.2
6	Lack of access to credit	8	10.5
	Total	76	100

Source: (2013 survey Data)

Table 3 shows the distribution of the constraints facing the effectiveness of indigenous daily deposit system in the study area. The result shows that low disposable income (52%) is the major constraint facing the effectiveness of daily deposit system. Other constraints include high risk of loss of savings (19.7%), high price paid for daily collectors services (9.7%), faulty services provided (9.7%), irregular deposit (9.7%) and lack of access to credit. The results of the study indicate that the major constraint to indigenous daily savings deposit services is low disposable income of savers.

CONCLUSION/RECOMMENDATIONS

From the result of the study, it was obvious that the rural agribusiness entrepreneurs could withdraw the amount they deposited at the end of every financial cycle. The daily deposit system is therefore considered as safe saving and credit system. There was evidence of the practice of partnership with conventional banks in the security of the fund contributed by rural entrepreneurs. While they pull funds from rural entrepreneurs and channel such funds to the conventional banks, they depend on the insurance policy and security apparatus of conventional banks for fund security. It was concluded that indigenous daily deposit collector system in this regard, could effectively complement conventional banking system in rural Agribusiness financing.

In order to promote the financing of smallscale Agribusiness in the rural area, it is recommended that:

Daily deposit system should be considered as an enhancement strategy for rural development. Technical training programs should be organized in the form of seminar for both small scale agribusiness entrepreneurs and daily deposit collectors for possible improvement in the system in the study area. Further studies should be conducted on the saving and credit effectiveness of indigenous daily deposit collector systems in other parts of Nigeria.

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